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SENSITIVE
SIPDIS

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TAGS: ECON ETRD EAID EFIN ENGY PK
SUBJECT: PAKISTAN'S DETERIORATING ENERGY SITUATION

¶1. (SBU) Summary. Electricity shortages in Pakistan are reaching record highs due to shortfalls of over 5500 mega watts (MW). In most major cities there are planned and unplanned power outages, sometimes for 18 hours a day. A circular debt problem between the domestic oil and power sector further threatens capacity of independent power producers (IPP), which normally contribute 70 percent of overall energy capacity but are currently operating at about 50 percent capacity. Pakistan State Oil (PSO) suspended the supply of fuel oil to IPPs on August 27 and has said it will now only supply furnace oil on a cash basis. The Economic Coordination Committee (ECC) recently allowed Karachi Electric Supply Company (KESC) to pass on the total amount of oil price increases to customers. In Karachi, the industrial hub of the county, businesses try to run on only a few hours of power per day. Hot, humid weather contributes to the misery, adversely impacting day-to-day life of Pakistanis and further paralyzing business activities. End Summary.

NO MONEY FOR POWER PRODUCERS

¶2. (U) With electricity shortages in the country reaching record highs due to shortfalls of over 5500 mega watts (MW), planned and unplanned power outages are occurring in Lahore, Karachi, Quetta, Peshawar and other cities, disrupting daily life and business activity. The duration of power cuts has reached 18 hours a day in many cities. The increased blackouts can be attributed to a pipeline disruption (reportedly ruptured by unknown individuals) in Sindh Province that resulted in a 1326 MW shortfall.

¶3. (U) The Government of Pakistan (GOP) has thus far failed to tackle the circular debt problem between the domestic oil and power sectors, further complicating the situation. With Rupees 200 billion (USD 2.6 billion) outstanding, this problem is severely impacting the overall GOP budget, as well as the investment climate. This situation is not only threatening a shutdown of IPPs, which contribute 70 percent of overall capacity to the national grid, but is also adversely impacting the ability of oil marketing companies (OMCs) to make timely purchases of imported petroleum products, particularly furnace oil and diesel.

¶4. (U) Due to significant and repeated delays in payments, Pakistan State Oil (PSO), the state-owned and largest oil marketing company in Pakistan, suspended the supply of fuel oil to the IPPs on August ¶27. PSO has told IPPs that it will now only supply furnace oil on cash payments. However, since the GOP fails to pay IPPs for power

produced, IPPs are seeking assistance from the GOP to ensure a supply of oil from PSO, making threats of further reductions in power production. The cash-starved IPPs are collectively owed approximately USD 2.6 billion from Pakistan Electric Power Company (PEPCO). They are currently operating at about 50 percent capacity and have indicated that their lack of cash flow may result in even lower capacity in the coming days. Meanwhile, the public and business community continue to endure extended blackouts each day, with some cities, such as Karachi and Peshwar, reporting up to 18 hours per day in some sectors.

STEPS TOWARD REMOVING SUBSIDIES

¶5. (U) In an August 26 meeting chaired by the Finance Minister Naveed Qamar, the Economic Coordination Committee (ECC) of the Cabinet made the decision to allow Karachi Electric Supply Company (KESC) to pass on the entire international oil price hike to customers. Previously there was a cap on the KESC pricing structure which allowed only a 5 percent increase. Currently, KESC purchases 750 MW of power from Pakistan's Water and Power Development Authority (WAPDA) at much higher rates than WAPDA's distribution company (Rupees 10 per unit for KESC vs. Rupees 3.70 per unit for WAPDA's distribution company). The ECC also decreed that KESC and WAPDA should be given the same rates, which should allow KESC to recover full fuel oil costs from consumers while also allowing it to cut its power costs by more than 40 percent. On August 28, the KESC fired five executive directors and appointed Naveed Ismael as CEO. Ismael was previously CEO of AES, a U.S.-owned IPP.

MISERY ACROSS THE COUNTRY

¶6. (U) In Karachi, currently for every hour of power there are two to three hours without power. Management of Karachi Electric Supply Corporation (KESC) has failed to develop even temporary remedies for this situation. Having received strong condemnation for long periods of unannounced power cuts in Northwest Frontier Province (NWFP), the NWFP Assembly unanimously adopted a resolution on August 29, demanding the GOP shift the head office of WAPDA from Lahore to NWFP, in order that the GOP could know the gravity of the situation. The Speaker of NWFP Assembly noted the "province has many problems that it is trying to tackle and long power cuts are increasing the sense of bereavement among the masses and worsening the law and order situation".

COMMENT

¶7. (SBU) Energy is only one of many problems currently plaguing Pakistan. Over the last two weeks, we have seen the power situation deteriorate. In Karachi, the industrial hub of the county, businesses are trying to run with sometimes only a few hours of power per day. Hot, humid weather has added to the misery, not only adversely impacting day-to-day life of Pakistanis, but also further paralyzing business activities. As power outages create acute water shortages, children and the elderly are often among the victims of this situation. The hope is that cooler, autumn weather will come soon and that the dire energy situation will not further deteriorate during one of the most tenuous times in Pakistan's history.

PATTERSON